

CITY OF MOUNT VERNON, IOWA

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	2
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	6
BASIC FINANCIAL STATEMENTS	20
	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 21
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 23
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 25
Notes to Financial Statements	26
OTHER INFORMATION	35
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	36
Notes to Other Information - Budgetary Reporting	37
SUPPLEMENTARY INFORMATION	38
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 39
Schedule of Indebtedness	2 40
Bond and Note Maturities	3 41
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4 42
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	43
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	45

CITY OF MOUNT VERNON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before 2013 Election)		
Scott C. Peterson	Mayor	December 31, 2013
Marty Christensen	Council Member	December 31, 2013
Slaton Anthony	Council Member	December 31, 2013
Marianne Taylor	Council Member	December 31, 2015
Steve P. Maurice	Council Member	Resigned May 2013
Jamie Hampton	Council Member	December 31, 2015
Francesca Thompson	Council Member	December 31, 2015
Michael R. Beimer	City Administrator	Indefinite
Robert Hatala	Attorney	Indefinite
Abbi Stensland	Attorney	Indefinite
(After 2013 Election)		
James Moore	Mayor	December 31, 2015
Eric S. Roudabush	Council Member	December 31, 2017
Marianne Taylor	Council Member	December 31, 2015
Francesca Thompson	Council Member	December 31, 2015
Jamie Hampton	Council Member	December 31, 2015
Bill Niemi	Council Member	December 31, 2017
Michael R. Beimer	City Administrator	Indefinite
Robert Hatala	Attorney	Indefinite
Abbi Stensland	Attorney	Indefinite

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council
Mount Vernon, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mount Vernon, Iowa, (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1.C. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mount Vernon, Iowa, as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.C.

Basis of Accounting

As described in Note 1.C., these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Vernon, Iowa's basic financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City of Mount Vernon, Iowa's financial statements for the nine years ended June 30, 2013, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. Those audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mount Vernon, Iowa's basic financial statements as a whole. The supplementary information included in Schedule 4 for the nine years ended June 30, 2013 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements for those nine years ended June 30, 2013. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nine years ended June 30, 2013 presented in Schedule 4 is fairly stated, in all material respects, in relation to the basic financial statements from which they have been derived.

The other information which consists of Management's Discussion and Analysis and the budgetary comparison information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2015, on our consideration of the City of Mount Vernon, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Mount Vernon, Iowa's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 19, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mount Vernon, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 57.6%, from \$4,186,849 (including net bond proceeds of \$567,435) to \$6,597,583 (including net bond proceeds of \$1,171,200), from fiscal year 2013 to fiscal year 2014. The first local option sales tax (LOSST-1) was passed in 2001 and again for 2003 and 2004 to allow for an extra 1 cent collection. Total of all LOSST funds accumulated as of June 30, 2014, amounts to \$1,168,158. The revenues received from LOSST-1 receipts are designated for the construction of a new fire station and a new community center, with the second local option sales tax (LOSST-2) passed in 2009 dedicated for infrastructure-related projects. A percentage formula for the 2001/2003-2004 for a new fire station and a new community center as to which project will receive funding and in what amounts was not on the ballot initiative that was passed. ** (Note: In July, 2010, the City Council, by Resolution, split the remaining revenue into two separate funds for a new fire station and a new community center, with \$400,000 being set aside for a new community center, and the balance being set aside for the new fire station project, which was completed in the spring of 2012). Another local option sales tax was passed county-wide in 2009 with revenues specifically for infrastructure related projects, with revenues from that initiative appearing in the spring of 2009. The two local option sales tax special revenue funds have been separated into two funds administratively, with the LOSST-1 fund (fire station/community center) balance standing at \$414,597 as of June 30, 2014, and the LOSST-2 fund standing at \$753,561, for a cumulative total of \$1,168,158 as of June 30, 2014. A new local option sales tax was passed (LOSST-3) which will run for 20 years, with a start date of July 1, 2014.
- Disbursements for governmental activities increased 15.1%, from \$5,441,010 (including payment of refunded bonds of \$545,000) to \$6,262,481 from fiscal year 2013 to fiscal year 2014. Public works, culture and recreation, community and economic development, general government and capital projects disbursements increased \$72,746, \$50,144, \$5,643, \$26,100 and \$1,364,320, respectively. Public safety, debt service and payment of refunded bonds disbursements decreased \$149,505, \$2,977 and \$545,000, respectively.
- The City's total cash basis net position increased from \$3,420,309 to \$4,343,958, from June 30, 2013 to June 30, 2014. This change was a result of an increase in the governmental activities net position of \$654,300 plus an increase in the net position for business type activities of \$269,349.
- In FY 2009, the City financed the construction of comprehensive sewer and water improvements projects, with the water improvements cost estimated at \$1,000,000 and \$2,500,000 for the sewer improvements. The two projects were sold as one bond, a new bond called a "Build America Bond," whereby the bonds were sold as taxable, with the City receiving a rebate from the Federal Government each six months after filing a form, bringing the true interest cost to 3.45% over a 20 year period. Note: The Budget Control Act of 2011 required automatic funding reductions in the event Congress failed to enact

legislation cutting the Federal deficit by \$1.2 trillion before January 2, 2013. As of the date of this writing, the Office of Budget and Management submitted a report to Congress estimating the amount of automatic funding reductions required in the event Congress failed to pass such legislation; subsequently, the funding reductions did include a 7.6% reduction in Federal subsidy payments to issuers of Build America Bonds. The City issued Build America Bonds in 2009 (series 2009B) which are affected due to the automatic funding reductions. The City is obligated to make the principal and interest payments on the 2009B bonds whether or not the full subsidy payments are received. Because the 2009B series is a general obligation of the City, the City has the authority to levy the full amount of interest needed for each payment, should the need arise. Management will track these developments and take action as deemed necessary. Rates for both water and sewer were adjusted to pay for these projects; additionally, due to the magnitude of the sewer projects funding and the declining sewer reserves, a "flat rate" of \$10 per month per domicile, as defined by Ordinance #5-4-2009B, was enacted. Had this new language not been adopted by Ordinance as was discussed, publicized and adopted, it was estimated that the flat rate per meter would have led to an increase of approximately \$25 per metered usage. Additionally, a financial analysis was performed on the revenue stream of the water utility versus water utility revenues, and it was determined that the water rate needed to be raised by 34 percent; however, Council opted to incrementally increase water rates by 10 percent each year for 3 years, and thereafter to increase rates for 3 percent annually. The sewer rate was also increased 10 percent the first year with companion language calling for an additional 3 percent increase every year thereafter. Starting in FY13, a fourth 10% adjustment to water rates, by ordinance, was approved and enacted by Council. The fourth 10% increase in water rates was implemented as it was projected that the first 3 consecutive rate increases would not have been sufficient to eliminate the deficit between revenues and expenditures in the water utility, which necessitated an increase in water rates beyond the 3% yearly increase contained in the City ordinance regarding water rates. Management is projecting that by the end of calendar year 2014, the water utility will have sufficient revenues to cover expenditures, barring any unforeseen circumstances, by increasing operational efficiency, making certain intrafund transfers and utilizing debt service fund reserves. The sewer utility is holding its own on revenues versus expenditures and this utility will be monitored regarding any rate increases in that utility. The storm water utility user rates were adjusted as of July 1, 2013 (FY14), as there was a need to modify certain aspects of the existing ordinance. Most users experienced an increase in the rates, with residential charges going from \$1.50 per ERU (equivalent residential unit) to \$3.00 each per month, with the one exception of Cornell College which was initially set at \$2.25 per ERU for one year and then going to \$3.00 per ERU on July 1, 2014. Storm water utility rates had not increased since the inception of the ordinance approximately 10 years ago and, increasingly, there are storm water projects that need to be funded.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, road use tax receipts and other state and federal grants finance most of these activities.
- Business Type Activities include the water system, the sanitary sewer system, solid waste and the storm sewer system. These activities are financed primarily by user charges.

•

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available

for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Storm Water, Solid Waste and Sanitary Sewer Funds, all of which are considered to be major funds of the City except for the Storm Water Fund.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$2,680,317 to \$3,334,617. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

**Changes in Cash Basis Net Position
of Governmental Activities
(Expressed in Thousands)**

	Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts		
Charges for service	\$ 224	\$ 268
Operating grants, contributions, and restricted interest	523	508
Capital grants, contributions, and restricted interest	1,643	18
General receipts		
Property tax	2,232	2125
Local option sales tax	554	524
Hotel/motel tax	64	58
Grants and contributions not restricted to specific purposes	6	6
Unrestricted interest on investments	7	8
Other general receipts	174	105
Net bond proceeds	<u>1,171</u>	<u>567</u>
Total receipts	<u>6,598</u>	<u>4,187</u>
Disbursements:		
Public safety	727	876
Public works	512	440
Culture and recreation	479	429
Community and economic development	89	83
General government	439	413
Debt service	1,033	1,581
Capital projects	<u>2,983</u>	<u>1,619</u>
Total disbursements	<u>6,262</u>	<u>5,441</u>
Change in cash basis net position before transfers	336	(1,254)
Tranfers, net	<u>319</u>	<u>384</u>
Change in cash basis net position	655	(870)
Cash basis net position, beginning of year	<u>2,680</u>	<u>3,550</u>
Cash basis net position, end of year	<u><u>\$ 3,335</u></u>	<u><u>\$ 2,680</u></u>

The City's total receipts for governmental activities increased 57.6%, or \$2,410,734. Current year receipts included \$1,171,200 of bond proceeds, compared to \$567,435 in the prior year. The total cost of all governmental programs and services increased by \$821,471, or 15.1%, with no new programs added this year. The most significant increase relates to capital projects, which increased \$1,364,320. Prior year disbursements included \$545,000 for payment of refunded bonds.

The City property tax rate for FY14 remained the same as last year. With the exception of two voted increases, the library tax levy and the capital equipment levy for the fire department, the base tax rate has remained unchanged for the last 21 years. **Note: The capital equipment levy (fire department fighting needs) was placed and approved on the November ballot for voters to approve another 10 year extension of this levy. This was the 3rd 10-year cycle of this ballot initiative. The property tax levy rate for fiscal year 2014 remained at the same rate of 12.99%; the same rate was applied for FY15. Based on increases in the total assessed valuation, with the primary increases being derived from new construction and a county wide property tax reassessment program, property tax receipts are projected to increase. Note: The commercial classifications have been re-assessed with calculations by an independent appraiser (Vanguard Appraisals) increasing this classification. The overall increase was 9.78%; some properties showed a decrease, some neutral and some an increase. The same process was applied to residential properties for FY14 for taxable valuations.

The cost of all governmental activities this year was \$6,262,481, compared to \$5,441,010 last year. However, as shown in the Cash Basis Statement of Activities and Net Position on page 21-22, the amount taxpayers ultimately financed for these activities was \$3,872,822 because some of the cost was paid by those who directly benefited from the programs (charges for service \$223,746) or by other governments and organizations which subsidized certain programs with grants and contributions of \$2,165,913. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2014 from \$793,921 to \$2,389,659.

**Changes in Cash Basis Net Position
of Business Type Activities
(Expressed in Thousands)**

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts		
Charges for service		
Water	\$ 649	\$ 676
Sewer	787	810
Solid waste	302	302
Storm water	76	37
General receipts		
Unrestricted interest on investments	5	5
Other general receipts	143	133
	<u>1,962</u>	<u>1,963</u>
Total receipts		
	<u>1,962</u>	<u>1,963</u>
Disbursements:		
Water	441	388
Sewer	488	476
Solid waste	352	359
Storm sewer	93	101
	<u>1,374</u>	<u>1,324</u>
Total disbursements		
	<u>1,374</u>	<u>1,324</u>
Change in cash basis net position before transfers	588	639
Tranfers, net	<u>(319)</u>	<u>(384)</u>
Change in cash basis net position	269	255
Cash basis net position, beginning of year	<u>740</u>	<u>485</u>
Cash basis net position, end of year	<u>\$ 1,009</u>	<u>\$ 740</u>

Total business type activities receipts for the fiscal year were \$1,962,024 compared to \$1,963,048 last year. The cash balance increased \$269,349 from the prior year. Total disbursements for the fiscal year increased 3.7%, to a total of \$1,373,477.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$3,334,617, an increase of \$654,300 from last year's total of \$2,680,317. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$89,266 from the prior year to \$790,667.
- The Special Revenue, Urban Renewal Tax Increment Fund was established in 1992 to account for major urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$487,233, an increase of \$179,653 from the previous year. The idea each year is to achieve a balance between expenditures and revenues, realizing that in each year there are instances where funds for projects budgeted have not yet been spent, thereby creating a positive balance which will flow through into the next year as an expenditure to achieve this balance. In May of 2006, the City of Mount Vernon adopted, by Ordinance, an amended Urban Renewal Plan, which now incorporates the entire corporate city limits in the Urban Renewal District. The 2006 amendment included a mandatory sunset of 20 years. The Urban Renewal District was amended in 2013 and again in 2014. The 2014 amendment was specific for municipal pool improvements, while the 2013 amendment was specific to a number of capital improvement projects, mainly those centered around use of parks, trails and other amenities. Barring any new methodology of utilizing TIF in the future, this 20 year cycle is set to expire in FY 26-27. The primary reason in so doing was for the repair and replacement of crumbling infrastructure in the older portions of the City that, prior to the adoption of the amendment, were not eligible for Tax Increment Financing. By including the entire City in one contiguous Urban Renewal District, the City will have the financial wherewithal to embark on a continuous program of infrastructure repair, within the statutory limits as prescribed by the Tax Increment Financing formula and current and future Iowa Code permitted usage, to benefit low to moderate income families. The City will need to remain vigilant to ensure that sufficient funds are allocated to the General Fund in so doing. The Urban Renewal Plan, as noted, has been amended twice: once in 2013 and again in 2014 and included in the amendments was the addition of the verbiage of the "not to exceed cost" is estimated for each project. It should be mentioned that the Urban Renewal Plan should closely track, to the degree possible, the Strategic Plan, and each will be reviewed annually for conformance and prioritization as needs occur and funds become available.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$313,255 during the fiscal year. The City has been using these funds for infrastructure-related projects. As noted earlier, this LOSST-2 portion expired in June 2014, with the LOSST-3 fund starting in July 2014. The purpose of the LOSST-3 funding was resolved to be split as follows: 55% for streets related infrastructure, 25% for a new community wellness center, 10% for downtown street-scaping projects, and 10% for trails related projects.
- The Debt Service Fund cash balance of \$(25,807) is a decrease of \$88,115 over the prior year balance of \$62,308. This balance has been factored into the FY14 operating budget to further reduce the deficit currently existing in the water utility. As a side note, in September 2012, the City had an advance refunding of the 2006 G.O. Capital Loan Notes, with an estimated savings of \$25,000 after paying all attributable expenses for defeasing the old bond. This savings will be posted to the water utility, further reducing the current deficit in that fund. Management had estimated that in calendar year 2014, the water utility would no longer be operating at a deficit. .
- The Capital Projects, 2009 Sanitary Sewer Fund cash balance decreased \$7,655 to \$422,091, due to the expenditure of funds on sewer projects.
- The Capital Projects, Highway 30 Corridor Improvements Fund was established in fiscal year 2013 in order to account for receipts and disbursements relating to the construction

of two highway roundabouts. The Fund's cash balance increased \$330,422 this year to \$57,978 as government grants and bond funds were received to offset current and prior year expenditures for the roundabouts. This project should be finalized as to the final accounting after undergoing the mandatory governmental audit to finalize the project. The physical aspects of the project are complete.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$145,858 to \$303,774. This is similar to the prior fiscal year results, which were up primarily due to an increase in water rates and a decrease in the amount transferred out of the fund.
- The Enterprise, Sewer Fund cash balance increased \$59,356 to \$411,985. This is similar to the prior fiscal year results, which were up primarily due to an increase in sewer rates and a decrease in program expenditures.
- The Enterprise, Solid Waste Fund cash balance increased \$81,089 to \$328,003. This is similar to the prior fiscal year results, which were up primarily due to an increase in rates and a decrease in program expenditures. The City re-negotiated a 5-year contract with Wapsi Waste Services prior to the contract expiration date of June 30, 2012. As the new contract called for an increase in compensation due to fuel costs, landfill costs, maintenance and equipment costs incurred by the contract hauler, the Council, by Ordinance, increased the rates for monthly service fees and tag sales accordingly to offset the increase. The cost of tags went from \$2.50 each to \$3.00 each and the monthly residential service charge went from \$9.00 per month to \$10.50 per month. As commercial rates were in line, no increases for that classification were incurred. The new rates took effect July 1, 2012, at the start of FY13. It is anticipated that no further increases in rates will be necessary during the life of the new contract, barring any unforeseen circumstances.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 19, 2014 and resulted in an increase in budgeted miscellaneous and other financing sources receipts and provided for additional disbursements in certain City departments.

The City's receipts were \$400,987 more than budgeted. Total disbursements were \$12,105 less than the amended budget. Disbursements for the public safety, culture and recreation, community and economic development, general government and business type activities functions were \$224,007, \$61,172, \$14,349, \$77,323 and \$491,181, respectively, less than the amended budget.

The City exceeded the amounts budgeted in the public works, debt service and capital projects functions for the year ended June 30, 2014.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$7,175,000 in general obligation bonds and capital loan notes, compared to \$6,705,000 last year. Debt increased as a result of issuing \$1,200,000 of general obligation bonds to defray a portion of the costs of construction of the Highway 30 Corridor Improvements Project (a.k.a.: "Roundabouts").

The City does now carry a general obligation bond rating assigned by the national rating agency Standard and Poors of an "AA-" rating, which is extremely good for a city of our size. This was evidenced by a \$2.7 million dollar G.O. Bond sale at the start of FY15, involving seven bidders and a very good rate based on the City's new rating by Standard and Poors. It also sold the bonds to the buyer with no buyer's discount, with the buyer (actually) paying a premium to purchase the new bonds. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$7,175,000 is below its constitutional debt limit of \$11,189,036 as of June 30, 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES AND COMMENTARY ON THE U.S. ECONOMY

Mount Vernon's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The City's population growth has generally mirrored the population growth of Linn County.

Inflation in the state continues to be somewhat lower than the national Consumer Price Index increase. Overall, the housing market may wane a bit as a gradual rise in long-term mortgage rates takes a modest toll. Most home buyers hold 30-year fixed rate mortgages. In March of 2005, the City went to contracting out the building inspection services, as opposed to performing the inspections with in-house staff. This alone resulted in a revenue shortfall of approximately \$45,000, and with the present contract service, it is predicted that contracting out will cost approximately \$45,000 to \$60,000, depending on the demand for building permits, primarily due to new construction in succeeding years, with said contract services being revenue neutral. In January of 2006, the City entered into a contract with the Linn County Building Department to realize a reduction in building cost fee schedules. As noted, this new contract was revenue neutral; however, by contracting with the Linn County Building Department, there will be significant savings (as much as 50% for persons taking out building permits over the previous contractor), making the permitting process more affordable for the residents of Mount Vernon. It is anticipated that Mount Vernon's demand for new housing will remain viable as long as interest rates do not move sharply up and consumer confidence in the market is restored. Building permits issued for new housing construction had been averaging approximately 20 per year; however, all of the available lots in the newer subdivision are now sold or built upon, further necessitating administration to work with developers holding land so that the need for available lots can be fulfilled. It is anticipated that Mount Vernon area developers will be working with the City on new development opportunities in late 2014 or early 2015 to fill this need. Mount Vernon relies heavily upon the residential tax base for funding programs within the City's General Fund. The City experienced increases in energy prices in 2013-2014, and it is highly likely that external expenses of which the City has little control over will continue upwards.

It is anticipated that all energy costs will continue to rise in 2014-2015, especially in the wake of natural disasters and unstable world oil markets that affect the prices of energy at all levels. Management feels that energy prices, consumer confidence, mounting credit card debt, adjustments in the Federal Reserve rate and correction in the stock market remain the linchpins on whether the U.S. economy sinks or swims in 2014-2015 and beyond during this slow recovery. If this scenario occurs, it is possible that there may be increasing drops in housing construction, financial strains on many homeowners' incomes and a major chill in consumer confidence.

Unfortunately, housing sector concerns will likely continue for the foreseeable future. Headwinds still loom as mortgage lenders tighten lending standards and builders have yet to fully correct the mismatch between housing demand and supply.

Market concerns about sub-prime mortgages and private equity activity continue to exert pressure performance of all bond sectors outside Treasury's. Even equity market elation over the same issues is turning toward concern about a continuing recession, a slower than anticipated recovery and market liquidity.

Revenue Shortfalls

Obviously, fiscal comparisons between states are difficult. For example, cities in Iowa do not receive a significant amount of revenue from the State of Iowa when compared to cities in other states. In many states, budget conditions at the state level impacted local budgets as states reduced their payments to cities.

Cities throughout the state continue to note increased estimated funding shortages in property tax revenues. When combined with the continuing erosion of property tax revenues due to the roll back and the statutory general fund levy limit a significant number of cities in Iowa feel revenue constraints for city operations.

Actions Taken for FY 2014

Because many of Iowa's communities already tax the maximum levy limit and have used their emergency fund levy, most Iowans' property tax rates have limited capacity to increase. This lack of capacity to increase is demonstrated with Iowa falling far below most states in property tax increases. As opposed to a majority of states, Iowa communities could not answer shortfalls by increasing property taxes. Even though cities throughout the state feel the effect of tightening budgets, citizens have yet to bear the significant costs to balance these shortfalls.

Conclusions

Alternative revenue and delivery methods such as inter-agency local agreements and use of fees and charges for services may see increases while cities attempt to find stability in revenue sources. These may not only serve as solutions to current issues, but could also create a solid base for additional resources.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget increased over the 2013 budget, the majority of which was for additional planned capital improvements projects. The new fire station completed in the spring of 2012 with an estimated cost in excess of \$2 million dollars; the long-planned sewer improvements project completed the previous year, as well as various street reconstruction and water main projects. Property tax (benefiting from the increases in assessed valuations) and urban renewal tax increment financing collections, and bond sales to finance certain capital improvement projects, led these increases. The City used these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out major urban renewal projects of the City. Increased wage and cost-of-living adjustments, increases in the public safety function, street reconstruction and maintenance, the aforementioned construction of a new fire station and urban renewal projects represent the largest increases. It was felt by administration that the City needed to reinvest itself in infrastructure-related public works projects, as reflected by the sharp upswings in the appropriations for spending in these sectors. Requests for proposals were sent out and received to investigate the needs and costs associated with upgrading the City's sanitary sewerage mains and

interceptors. The Howard R. Green Engineering firm was chosen to prepare that report. Cost estimates to repair and replace needed sewer infrastructure were approximately \$2,500,000, leading to adjusting the rates for the sewer utility. Several years ago the City also drilled two new wells and a second municipal water treatment in the northeast sector of town to accommodate a growing demand for water and to stay proactive with regards to consumer demand and anticipated growth. This initiative cost approximately \$1 million, also necessitating a rise in consumer rates and the previously mentioned Build America Bond sale to cover these costs. The City of Mount Vernon has applied for and received various federal and state grants, the largest of which was the ultimate creation of a roundabout at the intersection of Highway 30 and Highway One corridor and also at the intersection at 10th Avenue and Highway 30; construction was completed in late November, 2013, with final grading, seeding and amenities outside of the contract to be completed in the fall of 2014, with a final audit being performed before the project is considered complete and all retainages released. The City intends to apply for any grants that may become available. The City added no major new programs to the 2014 budget; however, new initiatives discussed to be implemented in further budgets include a new community center; community visioning projects (such as trails and park related projects), uptown main street and street-scaping funds and replacement of city sidewalks and streets, as the funding becomes available through LOSST-3, commencing July 1, 2014, and possible bond sales; infrastructure projects planned include storm water improvement projects, additional street overlays and reconstruction and other infrastructure related projects. Funding for these infrastructure-related projects will come from residual monies remaining in the Build America Bonds and LOSST-2 infrastructure funding, as the water and sewer utilities cannot bear any additional expenses to fund these types of projects at this juncture. Council made a conscious policy decision to transfer all of the funds, up to a cap of \$45,000 it was estimated to receive after July 1, 2006, from the hotel/motel tax to the Community Development Group (CDG) for the purposes of economic development. By State code, one-half of all revenues received from the collection of taxes from this fund are to be used for Tourism and Tourism-related activities. Revenue from the hotel/motel tax is projected to bring in approximately \$50,000 annually. For fiscal year 2014 and 2015, the City again made the conscious policy decision to cap future expenditures for this fund at \$45,000, regardless of the revenues generated from the Hotel/Motel Tax Fund.

In 2009, a 5-year Local Option Sales tax was passed in Linn County. Mount Vernon received its first monthly check in April, 2009. Projections for that 5-year time frame were that the City should receive approximately \$2.5 million dollars, or \$500,000 per year, until April, 2014, when LOSST expires. In July, 2014, LOSST-3 will commence for a period of 20 years. The money collected for LOSST-2 was specific to infrastructure improvements such as water, sewer and streets improvements, with streets improvements probably receiving the bulk of the allotment. The City has embarked on a proactive, conscious policy decision to invest in the repairs and upgrades of its aging infrastructure. At the time of this writing, the City of Cedar Rapids has previously approved an initiative for a 10 year LOSST, and it is anticipated that the expiration of said 10-year Cedar Rapids LOSST that they will place the initiative on the ballot again for another 10-year period. It is estimated by this writer that the City of Mount Vernon will receive an estimated minimum of \$500,000 per year. The LOSST revenues will be used to pay for the following categories and percentages: streets/sidewalks related: 55%; community center: 25%; trails: 10%; and street-scaping: 10%.

PROPERTY TAX ROLL-BACK

The Iowa Department of Revenue issues an Assessment Limitation Order to county auditors to adjust actual property values. The percentages for fiscal year 2012 through 2015 are as follows:

<u>Property Classification</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>
Residential	54.4002%	52.8166%	50.7518%	48.5299%
Commercial	95%	100%	100%	100%
Agricultural	43.3997%	57.5411%	57.5411%	100%
Industrial	95%	100%	100%	100%

**Multi-Residential (new classification beginning Assessment year 2015, January 1, 2015), will be 86.25%

Railroad 95%

While the property tax rollback system remains in place, several major changes were made during the last legislative session. For each assessment year that began in 2013, residential and agricultural growth will now be capped at 3% (as opposed to what used to be 4%) or whichever is lowest between the two classes. Commercial Industrial and Railroad property will now have their own rollback, which will be 95% for valuations established during the 2013 assessment year. For valuations established during or after the assessment year beginning January 1, 2014, commercial, industrial and railroad property will now be rolled back to 90%. Thereafter, these classes will be taxed at 90%.

The Legislature created a standing appropriation, beginning in FY15, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property (not for railroad reductions). Prior to FY2018, the appropriation is a standing unlimited appropriation, but beginning in FY2018, the standing annual appropriation will be capped at the FY2017 amount. As a result of the FY2017 cap, cities will likely see an increasing rollback for commercial and industrial properties as their values grow over time.

A new property class was established for multi-residential property, which includes mobile home parks, manufactured home communities, land-leased communities, assisted living facilities, and property primarily used or intended for human habitation containing three or more separate living quarters. Additionally, for buildings that are not now otherwise classified as residential property, that portion of the building that is used or intended for human habitation can be classified as a multi-residential property, even if human habitation is not the primary use of the building and irregardless of the number of dwelling units located in the building. The rollback percentages will be phased in over a period of eight years, beginning in assessment year 2015. *It should be noted that there is NO backfill provision for this class.*

The residential classification for roll-back for FY14, as shown in the chart above, increased to 52.8166%; commercial and industrial remained at 100% and agriculture at 57.5411% (of which the City has little land in this classification in its corporate limits). Legislature (S.F. #295) was passed in the 2013 session of the Iowa Legislature for commercial property tax reform, primarily aimed at reducing the percentage charged to commercial and industrial property classifications, small and Main Street businesses as well as a tax break for income taxpayers. A new residential classification was created for businesses with their upper levels being occupied by apartments (as opposed to the entire building being classified as commercial). As to the legislation enacted last year, the effect and percentage of taxable value by class will not take effect until FY15, but as time goes on, management is predicting the State's change in the

reduction in rollback for commercial and utilities will place a bit more pressure on other classes of property. For cities with lower commercial value the impact on the city budget may not be noticeable, but the overall school and county budgets could apply some pressure towards residential classes. The State's proposal is to back-fill cities' losses for 3 to 5 years, but this writer is uncertain that the State will be able to afford it long term. For the City of Mount Vernon, currently approximately 67% of taxable value is residential and the remaining 33% are utilities and commercial. With the sweeping changes to the property tax system, it may be challenging for any city to accurately forecast how their budgets will be affected.

The January 1, 2013 property tax valuation serves as the basis for calculating property taxes for 2015. Since 1978, residential, commercial and agricultural classifications have been subject to the assessment limitation order, or roll back, that limits annual growth in property taxes to (now, 3%) with a further restriction that growth in residential property cannot exceed that of agricultural property, whichever is less. The result in past years has been an annual rolling-back of residential values, although that trend is now increasing rather than decreasing. A significant decline in agricultural land productivity traditionally has resulted in low values on agricultural land for tax purposes. The limitation can also be applied to industrial and commercial property when necessary. This low value has resulted in a significant adjustment to residential property taxes. It is hoped that the roll-back will recover slightly, in an even-numbered year without revaluation of existing properties and equalization orders being absent. However, as previously reported, the county has re-assessed commercial properties with an average increase for Mount Vernon coming in at 9.78%; the same re-assessments have been completed for the residential sector in Mount Vernon through Linn County. The City will not know the full extent of these reassessments until sometime early in January, 2015, when the new valuations will be released county-wide, in time for the City to use them in making budgetary decisions for the upcoming FY16. The City of Mount Vernon has realized substantial residential growth in the last decade, which has partially offset past years declines attributable to the roll back factor. Between the 2000 census and the 2010 census, the population of Mount Vernon grew by 33%. It remains to be seen, however, if this trend will continue, at least for the foreseeable future, given the downturn in the housing market and the U.S. economy in general.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael R. Beimer, City Administrator, 213 First Street West, Mount Vernon, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF MOUNT VERNON
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2014

		Program Receipts		
		Charges for	Operating	Capital
	Disbursements	Services	Grants, Contributions and Restricted Interest	Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 726,626	\$ 25,223	\$ 9,820	\$ -
Public works	512,359	-	449,941	-
Culture and recreation	479,086	102,619	12,108	-
Community and economic development	89,062	-	-	-
General government	438,919	95,904	-	-
Debt service	1,032,898	-	50,783	-
Capital projects	2,983,531	-	-	1,643,261
Total governmental activities	6,262,481	223,746	522,652	1,643,261
Business type activities:				
Storm water	93,202	76,248	-	-
Water	440,500	649,268	-	-
Sewer	487,844	786,630	-	-
Solid waste	351,931	302,225	-	-
Total business type activities	1,373,477	1,814,371	-	-
Total	\$ 7,635,958	\$ 2,038,117	\$ 522,652	\$ 1,643,261

General Receipts and Transfers:

Property and other city tax levied for:
General purposes
Tax increment financing
Local option sales tax
Hotel/motel taxes
Grants and contributions not restricted to specific purposes
Unrestricted interest on investments
Bond proceeds
Bond discount and deposit received
Miscellaneous
Transfers
Total general receipts and transfers

CHANGE IN CASH BASIS NET POSITION
CASH BASIS NET POSITION, BEGINNING OF YEAR
CASH BASIS NET POSITION, END OF YEAR

CASH BASIS NET POSITION

Restricted:
Nonexpendable:
Cemetery perpetual care
Expendable:
Urban renewal purposes
Streets
Other purposes
Unrestricted

TOTAL CASH BASIS NET POSITION

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
\$ (691,583)	\$ -	\$ (691,583)
(62,418)	-	(62,418)
(364,359)	-	(364,359)
(89,062)	-	(89,062)
(343,015)	-	(343,015)
(982,115)	-	(982,115)
<u>(1,340,270)</u>	<u>-</u>	<u>(1,340,270)</u>
<u>(3,872,822)</u>	<u>-</u>	<u>(3,872,822)</u>
-	(16,954)	(16,954)
-	208,768	208,768
-	298,786	298,786
<u>-</u>	<u>(49,706)</u>	<u>(49,706)</u>
<u>-</u>	<u>440,894</u>	<u>440,894</u>
<u>(3,872,822)</u>	<u>440,894</u>	<u>(3,431,928)</u>
1,498,026	-	1,498,026
733,720	-	733,720
554,437	-	554,437
64,050	-	64,050
5,583	-	5,583
6,845	4,734	11,579
1,200,000	-	1,200,000
(28,800)	-	(28,800)
174,063	142,919	316,982
<u>319,198</u>	<u>(319,198)</u>	<u>-</u>
<u>4,527,122</u>	<u>(171,545)</u>	<u>4,355,577</u>
654,300	269,349	923,649
<u>2,680,317</u>	<u>739,992</u>	<u>3,420,309</u>
<u>\$ 3,334,617</u>	<u>\$ 1,009,341</u>	<u>\$ 4,343,958</u>
\$ 85,025	\$ -	\$ 85,025
487,233	-	487,233
101,089	-	101,089
1,188,887	-	1,188,887
<u>1,472,383</u>	<u>1,009,341</u>	<u>2,481,724</u>
<u>\$ 3,334,617</u>	<u>\$ 1,009,341</u>	<u>\$ 4,343,958</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT VERNON
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2014

	Special Revenue			Capital Projects				
	Urban	Local		2009	Highway 30			
	Renewal	Option	Debt	Sanitary	Corridor			
	Tax	Sales Tax	Service	Sewer	Improvements	Nonmajor	Total	
	General	Increment						
RECEIPTS:								
Property tax	\$ 944,453	\$ -	\$ -	\$ -	\$ -	\$ 532,005	\$ 1,476,458	
Tax increment financing	-	733,720	-	-	-	-	733,720	
Other city tax	85,618	-	554,437	-	-	-	640,055	
Licenses and permits	52,550	-	-	-	-	-	52,550	
Use of money and property	66,524	892	1,589	-	1,109	-	70,114	
Intergovernmental	27,511	-	-	50,783	-	1,643,261	449,941	2,171,496
Charges for service	110,852	-	-	-	-	-	-	110,852
Miscellaneous	57,442	-	9,049	-	-	97,930	6,717	171,138
Total receipts	<u>1,344,950</u>	<u>734,612</u>	<u>565,075</u>	<u>50,783</u>	<u>1,109</u>	<u>1,741,191</u>	<u>988,663</u>	<u>5,426,383</u>
DISBURSEMENTS:								
Operating:								
Public safety	726,626	-	-	-	-	-	-	726,626
Public works	-	-	-	-	-	-	512,359	512,359
Culture and recreation	479,086	-	-	-	-	-	-	479,086
Community and economic development	89,062	-	-	-	-	-	-	89,062
General government	317,765	-	-	-	-	-	121,154	438,919
Debt service	-	-	-	1,032,898	-	-	-	1,032,898
Capital projects	-	-	121,175	-	8,764	2,581,969	271,623	2,983,531
Total disbursements	<u>1,612,539</u>	<u>-</u>	<u>121,175</u>	<u>1,032,898</u>	<u>8,764</u>	<u>2,581,969</u>	<u>905,136</u>	<u>6,262,481</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(267,589)</u>	<u>734,612</u>	<u>443,900</u>	<u>(982,115)</u>	<u>(7,655)</u>	<u>(840,778)</u>	<u>83,527</u>	<u>(836,098)</u>
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	-	-	1,200,000	-	1,200,000
Bond discount and deposit received	-	-	-	-	-	(28,800)	-	(28,800)
Transfers in	356,855	-	-	894,000	-	-	59,802	1,310,657
Transfers out	-	(601,343)	(84,261)	-	-	-	(305,855)	(991,459)
Interfund loans paid	-	46,384	(46,384)	-	-	-	-	-
Total other financing sources (uses)	<u>356,855</u>	<u>(554,959)</u>	<u>(130,645)</u>	<u>894,000</u>	<u>-</u>	<u>1,171,200</u>	<u>(246,053)</u>	<u>1,490,398</u>
NET CHANGE IN CASH BALANCES	89,266	179,653	313,255	(88,115)	(7,655)	330,422	(162,526)	654,300
CASH BALANCES, BEGINNING OF YEAR	<u>701,401</u>	<u>307,580</u>	<u>854,903</u>	<u>62,308</u>	<u>429,746</u>	<u>(272,444)</u>	<u>596,823</u>	<u>2,680,317</u>
CASH BALANCES, END OF YEAR	<u>\$ 790,667</u>	<u>\$ 487,233</u>	<u>\$ 1,168,158</u>	<u>\$ (25,807)</u>	<u>\$ 422,091</u>	<u>\$ 57,978</u>	<u>\$ 434,297</u>	<u>\$ 3,334,617</u>

CITY OF MOUNT VERNON
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2014
(continued)

	<u>Special Revenue</u>				<u>Capital Projects</u>			
	Urban	Local			2009	Highway 30		
	Renewal	Option	Debt		Sanitary	Corridor		
	Tax	Sales Tax	Service		Sewer	Improvements	Nonmajor	Total
	<u>General</u>	<u>Increment</u>	<u>General</u>	<u>Service</u>	<u>Sewer</u>	<u>Improvements</u>	<u>Nonmajor</u>	<u>Total</u>
Cash Basis Fund Balances								
Nonspendable - Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,025	\$ 85,025
Restricted for:								
Urban renewal	-	487,233	-	-	-	-	-	487,233
Streets	-	-	-	-	-	-	101,089	101,089
Other purposes	-	-	1,168,158	-	-	-	20,729	1,188,887
Assigned for:								
Fire station and equipment	-	-	-	-	-	-	209,231	209,231
Water improvements	-	-	-	-	-	-	54,865	54,865
Sewer improvements	-	-	-	-	422,091	-	-	422,091
Street improvements	-	-	-	-	-	57,978	-	57,978
Unassigned	790,667	-	-	(25,807)	-	-	(36,642)	728,218
Total cash basis fund balances	<u>\$ 790,667</u>	<u>\$ 487,233</u>	<u>\$ 1,168,158</u>	<u>\$ (25,807)</u>	<u>\$ 422,091</u>	<u>\$ 57,978</u>	<u>\$ 434,297</u>	<u>\$ 3,334,617</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT VERNON
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Proprietary Funds
As of and for the year ended June 30, 2014

	Enterprise				
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Nonmajor Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:					
Charges for service	\$ 649,268	\$ 786,630	\$ 302,225	\$ 76,248	\$ 1,814,371
Miscellaneous	<u>11,119</u>	<u>2,456</u>	<u>129,344</u>	<u>-</u>	<u>142,919</u>
Total operating receipts	660,387	789,086	431,569	76,248	1,957,290
OPERATING DISBURSEMENTS:					
Business type activities	<u>440,500</u>	<u>487,844</u>	<u>351,931</u>	<u>93,202</u>	<u>1,373,477</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	219,887	301,242	79,638	(16,954)	583,813
NON-OPERATING RECEIPTS:					
Interest on investments	<u>2,391</u>	<u>892</u>	<u>1,451</u>	<u>-</u>	<u>4,734</u>
Excess (deficiency) of receipts over (under) disbursements	222,278	302,134	81,089	(16,954)	588,547
OTHER FINANCING USES:					
Transfers out	<u>(76,420)</u>	<u>(242,778)</u>	<u>-</u>	<u>-</u>	<u>(319,198)</u>
NET CHANGE IN CASH BALANCES	145,858	59,356	81,089	(16,954)	269,349
CASH BALANCES, BEGINNING OF YEAR	<u>157,916</u>	<u>352,629</u>	<u>246,914</u>	<u>(17,467)</u>	<u>739,992</u>
CASH BALANCES, END OF YEAR	<u>\$ 303,774</u>	<u>\$ 411,985</u>	<u>\$ 328,003</u>	<u>\$ (34,421)</u>	<u>\$ 1,009,341</u>
CASH BASIS FUND BALANCES:					
Unrestricted	<u>\$ 303,774</u>	<u>\$ 411,985</u>	<u>\$ 328,003</u>	<u>\$ (34,421)</u>	<u>\$ 1,009,341</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Mount Vernon, Iowa (the City), a political subdivision of the State of Iowa located in Linn County, operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City.

The following component unit is an entity that is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. However, the financial transactions of this component unit have not been displayed because they are not material.

The Mt. Vernon Fire Department was established by adopting its own constitution and by-laws. The Fire Department collects donations which are used to purchase items, which are not included in the City's budget.

The police and fire reserve organizations have governing authorities independent from the City and are not considered to be component units of the City. As such, their activity is not included in the financial statements of the City.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balance are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from the other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections, the repayment of tax increment financing indebtedness and for urban renewal projects financed by tax increment financing.

CITY OF MOUNT VERNON
Notes to Financial Statements
June 30, 2014

(1) Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Local Option Sales Tax Fund is used to account for the receipt and expenditure of local option sales taxes.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The 2009 Sanitary Sewer Fund is used to account for sewer improvement projects.

The Highway 30 Corridor Improvement Fund is used to account for receipts and disbursements relating to the construction of two highway roundabouts.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the costs associated with solid waste removal which is funded through user fees.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public works, debt service, and capital projects functions.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2012 to compute the amounts which became liens on property on July 1, 2013. These taxes were due and payable in two installments on September 30, 2013 and March 31, 2014, at the Linn County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2014

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the City's deposits consisted of cash, cash equivalents, and bank certificates of deposit.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Year ending June 30,	General Obligation Bonds & Notes	
	Principal	Interest
2015	\$ 845,000	\$ 280,688
2016	875,000	257,168
2017	755,000	231,406
2018	525,000	204,930
2019	500,000	185,793
2020	515,000	167,008
2021	480,000	147,073
2022	500,000	127,603
2023	285,000	107,043
2024	300,000	94,555
2025	305,000	81,070
2026	325,000	66,680
2027	340,000	50,978
2028	360,000	33,945
2029	265,000	15,636
Total	\$ 7,175,000	\$ 2,051,573

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2014

(3) Bonds and Notes Payable (continued)

During the current fiscal year the City issued \$1,200,000 in General Obligation Capital Loan Notes (Series 2013A) for the funding of expenses of the Highway 30 Corridor Improvements.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement Systems (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$106,936, \$104,193, and \$98,464, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 53,228
Sick Leave	<u>71,045</u>
Total	<u><u>\$ 124,273</u></u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

Sick leave is payable when used or at retirement. If, at retirement, an employee has at least 20 years of service, all of the accumulated sick leave will be paid, with the pay rate being the same as the employee's regular rate. Upon termination (voluntary/involuntary) an employee who has worked less than 20 years shall receive one half of all accumulated sick leave pay. Based on this computation, the minimum accumulated sick leave approximates \$39,400 at June 30, 2014.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2014

(5) Compensated Absences (continued)

The City is also potentially liable for severance pay and continued health coverage for certain employees. If the employees' contracts are not renewed by the City Council, the City agrees to pay an amount equal to a specified number of months of the employees' salary, half of their accrued sick leave, all of their accrued vacation, and health coverage. Calculated based on rates of pay and the insured cost of health coverage as of June 30, 2014, the total per employee for the three employees affected approximates \$72,162, \$36,355, and \$44,764, respectively.

(6) Meter Deposits

At June 30, 2014, the City was holding meter deposits from individuals in the amount of \$7,440.

(7) Interfund Transfers and Loans

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Employee Benefit Fund	\$ 275,098
	Emergency Levy Fund	30,757
	Water Fund	25,500
	Sewer Fund	25,500
Sidewalk Project	Local Option Sales Tax	59,802
Debt Service	Urban Renewal Tax Increment Fund	601,343
	Water Fund	50,920
	Local Option Sales Tax	24,460
	Sewer Fund	<u>217,278</u>
Total		<u>\$ 1,310,657</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. Additionally, transfers from the water and sewer funds to the general fund are for payments in lieu of taxes.

There was also \$46,384 of transfers within the same fund to different departments.

CITY OF MOUNT VERNON
Notes to Financial Statements

June 30, 2014

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balances

The Capital Project Fund deficit balance of \$(16,207) was a result of project costs incurred prior to availability of funds. This deficit will be eliminated next year upon receipt of TIF funds.

The Storm Water Fund deficit balance of \$(34,421) was caused by increases in State mandates and will likely be eliminated through increases in storm water rates.

The Insurance Levy Fund deficit balance of \$(4,769) was a result of higher costs during the year due to the City being put in a higher risk category based on claims made during the year. This deficit will be eliminated through increases in the budget and future property tax revenues.

The Debt Service Fund deficit balance of \$(25,807) was due to insufficient transfers being made from other funds to cover the necessary debt payments. The transfer amounts will be reviewed for the 2015 fiscal year to ensure the proper amounts are transferred.

The Sidewalk Project Fund deficit balance of \$(15,666) was due to costs being higher during the year than originally planned. This is a multi-year project so an adjustment will be made for the next year's budget.

(10) Commitments

As of June 30, 2014, the City has various outstanding construction contracts totaling \$641,400.

The City has a contract for solid waste hauling that extends from July 1, 2012 through June 30, 2017. Payment amounts under the contract are dependent upon the number of City residents.

The City has a multi-year contract with Utility Service Company, Inc., starting in 2013, which includes interior and exterior renovations, repairs, and emergency services on the water tower. Years one through four require payments of \$49,797 per year and years five through seven require payments of \$18,997 per year.

CITY OF MOUNT VERNON

Notes to Financial Statements

June 30, 2014

(11) Excess of Expenditures Over Budget

The following expenditures exceeded budgeted amounts:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Public Works	\$ 501,565	\$ 512,359	\$ 10,794
Debt Service	1,009,296	1,032,898	23,602
Capital Projects	2,162,000	2,983,531	821,531

(12) Subsequent Events

Management evaluated subsequent events through January 19, 2015, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to January 19, 2015, that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2014.

In September 2014, the City issued \$2,700,000 of General Obligation Capital Loan Notes.

(13) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

OTHER INFORMATION

CITY OF MOUNT VERNON
Budgetary Comparison Schedule of Receipts, Disbursements and
Changes in Balances - Budget and Actual (Cash Basis) -
All Governmental Funds and Proprietary Funds
Other Information
Year ended June 30, 2014

	Governmental	Proprietary	Less Funds not		Budgeted Amounts		Final to
	Funds	Funds	Required to	Total	Original	Final	Total
	Actual	Actual	be Budgeted				Variance
RECEIPTS:							
Property tax	\$ 1,476,458	\$ -	\$ -	\$ 1,476,458	\$ 1,460,761	\$ 1,460,761	\$ 15,697
Tax increment financing	733,720	-	-	733,720	739,303	739,303	(5,583)
Other city tax	640,055	-	-	640,055	589,460	589,460	50,595
Licenses and permits	52,550	-	-	52,550	70,000	70,000	(17,450)
Use of money and property	70,114	4,734	-	74,848	58,800	58,800	16,048
Intergovernmental	2,171,496	-	-	2,171,496	1,920,000	1,920,000	251,496
Charges for service	110,852	1,814,371	-	1,925,223	2,005,000	2,005,000	(79,777)
Miscellaneous	171,138	142,919	-	314,057	140,417	144,096	169,961
Total receipts	<u>5,426,383</u>	<u>1,962,024</u>	<u>-</u>	<u>7,388,407</u>	<u>6,983,741</u>	<u>6,987,420</u>	<u>400,987</u>
DISBURSEMENTS:							
Public safety	726,626	-	-	726,626	781,633	950,633	224,007
Public works	512,359	-	-	512,359	501,565	501,565	(10,794)
Culture and recreation	479,086	-	-	479,086	480,579	540,258	61,172
Community and economic development	89,062	-	-	89,062	93,411	103,411	14,349
General government	438,919	-	-	438,919	516,242	516,242	77,323
Debt service	1,032,898	-	-	1,032,898	1,009,296	1,009,296	(23,602)
Capital projects	2,983,531	-	-	2,983,531	2,162,000	2,162,000	(821,531)
Business type activities	-	1,373,477	-	1,373,477	1,864,658	1,864,658	491,181
Total disbursements	<u>6,262,481</u>	<u>1,373,477</u>	<u>-</u>	<u>7,635,958</u>	<u>7,409,384</u>	<u>7,648,063</u>	<u>12,105</u>
Excess (deficiency) of receipts over (under) disbursements	(836,098)	588,547	-	(247,551)	(425,643)	(660,643)	413,092
OTHER FINANCING SOURCES (USES), NET	<u>1,490,398</u>	<u>(319,198)</u>	<u>-</u>	<u>1,171,200</u>	<u>-</u>	<u>120,000</u>	<u>1,051,200</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	654,300	269,349	-	923,649	(425,643)	(540,643)	1,464,292
BALANCES, BEGINNING OF YEAR	<u>2,680,317</u>	<u>739,992</u>	<u>-</u>	<u>3,420,309</u>	<u>3,073,054</u>	<u>3,073,054</u>	<u>347,255</u>
BALANCES, END OF YEAR	<u>\$ 3,334,617</u>	<u>\$ 1,009,341</u>	<u>\$ -</u>	<u>\$ 4,343,958</u>	<u>\$ 2,647,411</u>	<u>\$ 2,532,411</u>	<u>\$ 1,811,547</u>

CITY OF MOUNT VERNON

Notes to Other Information - Budgetary Reporting

June 30, 2014

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$3,679 and budgeted disbursements by \$238,679. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed budgeted prior to the budget being amended. At year end, Public Works, Debt Service, and Capital Projects budgets were exceeded.

SUPPLEMENTARY INFORMATION

CITY OF MOUNT VERNON
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances -
Nonmajor Governmental Funds
As of and for the year ended June 30, 2014

Schedule 1

	Special Revenue					Capital Projects				Permanent	
	Road Use	Insurance	Employee	Emergency	Low-	2006/2009	Fire	Capital	Sidewalk	Cemetery	
	Tax	Levy	Benefits	Levy	Moderate	Water	Department	Projects	Project	Perpetual	Total
					Income	Improvement				Care	
Receipts:											
Property tax	\$ -	\$ 145,695	\$ 277,656	\$ 31,044	\$ -	\$ -	\$ 77,610	\$ -	\$ -	\$ -	\$ 532,005
Intergovernmental	449,941	-	-	-	-	-	-	-	-	-	449,941
Miscellaneous	1,953	2,204	-	-	-	-	-	-	-	2,560	6,717
Total receipts	<u>451,894</u>	<u>147,899</u>	<u>277,656</u>	<u>31,044</u>	<u>-</u>	<u>-</u>	<u>77,610</u>	<u>-</u>	<u>-</u>	<u>2,560</u>	<u>988,663</u>
Disbursements:											
Operating:											
General government	-	121,154	-	-	-	-	-	-	-	-	121,154
Public works	512,359	-	-	-	-	-	-	-	-	-	512,359
Capital projects	-	-	-	-	-	70,733	119,215	6,207	75,468	-	271,623
Total disbursements	<u>512,359</u>	<u>121,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,733</u>	<u>119,215</u>	<u>6,207</u>	<u>75,468</u>	<u>-</u>	<u>905,136</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(60,465)</u>	<u>26,745</u>	<u>277,656</u>	<u>31,044</u>	<u>-</u>	<u>(70,733)</u>	<u>(41,605)</u>	<u>(6,207)</u>	<u>(75,468)</u>	<u>2,560</u>	<u>83,527</u>
Other financing sources (uses):											
Transfers in	-	-	-	-	-	-	-	-	59,802	-	59,802
Transfers out	-	-	(275,098)	(30,757)	-	-	-	-	-	-	(305,855)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(275,098)</u>	<u>(30,757)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,802</u>	<u>-</u>	<u>(246,053)</u>
Net change in cash balances	(60,465)	26,745	2,558	287	-	(70,733)	(41,605)	(6,207)	(15,666)	2,560	(162,526)
Cash balances, beginning of year	161,554	(31,514)	6,589	758	10,537	125,598	250,836	(10,000)	-	82,465	596,823
Cash balances, end of year	<u>\$ 101,089</u>	<u>\$ (4,769)</u>	<u>\$ 9,147</u>	<u>\$ 1,045</u>	<u>\$ 10,537</u>	<u>\$ 54,865</u>	<u>\$ 209,231</u>	<u>\$ (16,207)</u>	<u>\$ (15,666)</u>	<u>\$ 85,025</u>	<u>\$ 434,297</u>
Cash Basis Fund Balances											
Nonspendable - cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,025	\$ 85,025
Restricted for:											
Streets	101,089	-	-	-	-	-	-	-	-	-	101,089
Other	-	-	9,147	1,045	10,537	-	-	-	-	-	20,729
Assigned for:											
Water improvements	-	-	-	-	-	54,865	-	-	-	-	54,865
Fire station and equipment	-	-	-	-	-	-	209,231	-	-	-	209,231
Unassigned	-	(4,769)	-	-	-	-	-	(16,207)	(15,666)	-	(36,642)
Total cash basis fund balances	<u>\$ 101,089</u>	<u>\$ (4,769)</u>	<u>\$ 9,147</u>	<u>\$ 1,045</u>	<u>\$ 10,537</u>	<u>\$ 54,865</u>	<u>\$ 209,231</u>	<u>\$ (16,207)</u>	<u>\$ (15,666)</u>	<u>\$ 85,025</u>	<u>\$ 434,297</u>

See accompanying independent auditors' report.

City of Mount Vernon
Schedule of Indebtedness
Year ended June 30, 2014

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds and capital loan notes:									
2007 Capital improvements	May 1, 2007	4.00%	\$ 4,410,000	\$ 2,525,000	\$ -	\$ 345,000	\$ 2,180,000	\$ 101,000	\$ -
2009A Sewer improvements	July 1, 2009	2.00 - 3.75%	400,000	235,000	-	40,000	195,000	8,138	-
2009B Sewer/water improvements	Sept. 22, 2009	1.50 - 5.90%	3,500,000	3,090,000	-	140,000	2,950,000	156,352	-
2010A Fire station construction	Oct. 19, 2010	0.90 - 2.85%	400,000	320,000	-	40,000	280,000	6,943	-
2010B Land purchase	Dec. 1, 2010	0.46 - 1.81%	160,000	105,000	-	25,000	80,000	1,450	-
2012 Bond refunding	Oct. 10, 2012	0.35 - 0.60%	570,000	430,000	-	140,000	290,000	2,155	-
2013A Highway 30 Corridor Improvements	July 1, 2013	0.85 - 3.10%	1,200,000	-	1,200,000	-	1,200,000	23,460	-
Total				<u>\$ 6,705,000</u>	<u>\$ 1,200,000</u>	<u>\$ 730,000</u>	<u>\$ 7,175,000</u>	<u>\$ 299,498</u>	<u>\$ -</u>

See accompanying independent auditors' report.

CITY OF MOUNT VERNON
Bond and Note Maturities
June 30, 2014

Schedule 3

General Obligation Bonds and Capital Loan Notes						
Year ending June 30,	2007 Capital Improvements		2009A Sewer Improvements		2009B Sewer/Water Improvements	
	Issued May 1, 2007		Issued July 1, 2009		Issued September 22, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2015	4.00%	\$ 365,000	3.25%	\$ 45,000	3.50%	\$ 145,000
2016	4.00%	380,000	3.25%	50,000	4.00%	155,000
2017	4.00%	395,000	3.75%	50,000	4.25%	155,000
2018	4.00%	190,000	3.75%	50,000	4.50%	160,000
2019	4.00%	200,000	-	-	4.75%	170,000
2020	4.00%	210,000	-	-	5.00%	175,000
2021	4.00%	215,000	-	-	5.00%	180,000
2022	4.00%	225,000	-	-	5.10%	190,000
2023	-	-	-	-	5.25%	195,000
2024	-	-	-	-	5.35%	210,000
2025	-	-	-	-	5.50%	215,000
2026	-	-	-	-	5.65%	230,000
2027	-	-	-	-	5.75%	245,000
2028	-	-	-	-	5.85%	260,000
2029	-	-	-	-	5.90%	265,000
		<u>\$ 2,180,000</u>		<u>\$ 195,000</u>		<u>\$ 2,950,000</u>

General Obligation Bonds and Capital Loan Notes										
Year ending June 30,	2010A		2010B		2012		2013A		Total	
	Fire Station Construction		Land Purchase		Bond Refunding		Highway 30 Corridor			
	Issued October 19, 2010		Issued December 1, 2010		Issued October 10, 2012		Issued July 1, 2013			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2015	1.60%	\$ 45,000	1.20%	\$ 25,000	0.50%	\$ 145,000	0.85%	\$ 75,000	\$ 845,000	
2016	1.90%	45,000	1.50%	25,000	0.60%	145,000	0.85%	75,000	875,000	
2017	2.20%	45,000	1.81%	30,000	-	-	0.85%	80,000	755,000	
2018	2.45%	45,000	-	-	-	-	1.70%	80,000	525,000	
2019	2.70%	50,000	-	-	-	-	1.70%	80,000	500,000	
2020	2.85%	50,000	-	-	-	-	1.70%	80,000	515,000	
2021	-	-	-	-	-	-	2.20%	85,000	480,000	
2022	-	-	-	-	-	-	2.20%	85,000	500,000	
2023	-	-	-	-	-	-	2.50%	90,000	285,000	
2024	-	-	-	-	-	-	2.50%	90,000	300,000	
2025	-	-	-	-	-	-	2.85%	90,000	305,000	
2026	-	-	-	-	-	-	2.85%	95,000	325,000	
2027	-	-	-	-	-	-	3.10%	95,000	340,000	
2028	-	-	-	-	-	-	3.10%	100,000	360,000	
2029	-	-	-	-	-	-	-	-	265,000	
		\$ 280,000		\$ 80,000		\$ 290,000		\$ 1,200,000	\$ 7,175,000	

See accompanying independent auditors' report.

CITY OF MOUNT VERNON
Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds
For the Last Ten Years

Schedule 4

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts:										
Property tax	\$ 1,476,458	\$ 1,378,806	\$ 1,377,296	\$ 1,235,073	\$ 1,155,472	\$ 1,025,006	\$ 1,142,527	\$ 991,801	\$ 854,772	\$ 876,918
Tax increment financing collections	733,720	724,854	676,858	812,338	759,471	899,722	333,708	595,021	739,361	613,934
Other city tax	640,055	603,508	648,531	614,939	609,832	126,127	74,599	103,758	560,300	518,229
Licenses and permits	52,550	79,764	72,490	71,759	58,929	84,542	69,276	57,439	90,086	72,072
Use of money and property	70,114	57,515	48,155	62,742	57,413	54,388	89,050	102,637	43,350	29,333
Intergovernmental	2,171,496	525,268	439,696	428,944	404,529	369,307	367,161	355,094	342,940	333,602
Charges for service	110,852	141,688	145,794	135,642	119,055	95,746	120,979	107,965	113,589	93,816
Miscellaneous	171,138	105,686	160,217	168,948	102,730	81,604	108,347	71,189	84,446	117,918
Total	<u>\$ 5,426,383</u>	<u>\$ 3,617,089</u>	<u>\$ 3,569,037</u>	<u>\$ 3,530,385</u>	<u>\$ 3,267,431</u>	<u>\$ 2,736,442</u>	<u>\$ 2,305,647</u>	<u>\$ 2,384,904</u>	<u>\$ 2,828,844</u>	<u>\$ 2,655,822</u>
Disbursements:										
Operating:										
Public safety	\$ 726,626	\$ 876,131	\$ 635,662	\$ 727,507	\$ 632,578	\$ 647,294	\$ 576,270	\$ 548,890	\$ 528,275	\$ 518,300
Public works	512,359	439,613	429,652	336,272	392,934	379,826	330,170	264,064	380,354	363,862
Culture and recreation	479,086	428,942	472,897	418,667	358,976	325,455	294,977	284,887	269,225	310,357
Community and economic development	89,062	83,419	69,388	52,829	67,948	69,516	77,194	54,270	38,541	21,715
General government	438,919	412,819	485,011	414,880	372,293	363,621	288,571	270,390	265,636	265,671
Debt service	1,032,898	1,035,875	1,120,761	1,145,441	1,595,321	602,659	728,040	2,366,083	511,753	518,900
Capital projects	2,983,531	1,619,211	3,708,097	1,276,918	1,085,228	2,110,990	1,098,329	508,431	568,756	316,288
Total	<u>\$ 6,262,481</u>	<u>\$ 4,896,010</u>	<u>\$ 6,921,468</u>	<u>\$ 4,372,514</u>	<u>\$ 4,505,278</u>	<u>\$ 4,499,361</u>	<u>\$ 3,393,551</u>	<u>\$ 4,297,015</u>	<u>\$ 2,562,540</u>	<u>\$ 2,315,093</u>

See accompanying independent auditors' report.

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Honorable Mayor and
Members of the City Council
Mount Vernon, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mount Vernon, Iowa, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Mount Vernon, Iowa's basic financial statements, and have issued our report thereon dated January 19, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Mount Vernon, Iowa's internal control over financial reporting to determine the audit procedures are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mount Vernon, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Mount Vernon, Iowa's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-14 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mount Vernon, Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City in a separate letter dated January 19, 2015.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Mount Vernon's Responses to Findings

The City of Mount Vernon, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Mount Vernon, Iowa's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 19, 2015

CITY OF MOUNT VERNON

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Part I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INTERNAL CONTROL DEFICIENCY:

II-A-14: Lack of Segregation of Duties

Criteria:

The City should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The City does not have complete segregation of duties over all accounting transactions. The city clerk has the ability to set up vendors, and write and sign checks. Though disbursements are reviewed, there is a lack of controls to ensure that all disbursements are reviewed. Utility adjustments and write offs can be performed by all accounting staff. There is no review over the processing of pay rates in the payroll system. In addition, there are no controls to ensure that pay rates are not inappropriately modified during the year. Even though time cards are approved, there should be secondary review controls in place to ensure that hours entered into the payroll register agree with the time cards.

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The City has a limited number of personnel performing accounting functions.

CITY OF MOUNT VERNON

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS: (CONTINUED)

INTERNAL CONTROL DEFICIENCY: (CONTINUED)

II-A-14: Lack of Segregation of Duties (continued)

Recommendation:

We recommend that tasks performed by accounting be evaluated so that proper segregation of duties can be established. We suggest that the city clerk not have the ability to prepare checks while at the same time be able to sign checks. Someone other than the preparer of the check voucher should review & approve the coding of checks. In addition, there should be controls implemented to ensure completeness that all checks are being reviewed. Since utility write-offs can be performed by all accounting staff, we suggest that a review of adjustments be performed by the City Administrator. In regards to the processing of payroll, we suggest that pay rate changes be independently reviewed after being entered into the system. In addition, we suggest that controls be put into place to ensure that pay rates are not inappropriately modified during the year. There should be secondary review controls in place to ensure that hours entered onto the payroll register agree with the actual time cards. Individual pay rate/salary reports should be created and maintained in personnel files for all employees.

Management Response:

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. Management is monitoring the situation and is segregating accounting duties where practical.

Conclusion:

Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

III-A-14 Certified Budget – Disbursements during the year ended June 30, 2014, exceeded the amounts budgeted in the public works, capital projects, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

CITY OF MOUNT VERNON

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- III-B-14 Questionable Disbursements - We noted no disbursements that failed to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979
- III-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-14 Business Transactions - No business transactions between the City and City officials or employees were noted.
- III-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- III-F-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-14 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-H-14 Financial Condition - The Capital Projects, Storm Water, Insurance Levy, Debt Service, and Sidewalk Project funds had deficit balances at June 30, 2014 of \$16,207, \$34,421, \$4,769, \$25,807, and \$15,666, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response - The Capital Project Fund deficit balance was a result of project costs incurred prior to availability of funds and will be eliminated next year upon receipt of TIF funds. The Storm Water Fund deficit balance will be eliminated through increases in storm water rates. The Insurance Levy Fund deficit balance was a result of higher costs during the year due to the City being put in a higher risk category based on claims made during the year. This deficit will be eliminated through increases in the budget and future property tax revenues. The Debt Service Fund deficit balance was due to insufficient transfers being made from other funds to cover the necessary debt payments. Transfer amounts will be reviewed for the 2015 fiscal year to ensure proper amounts are transferred. The Sidewalk Project Fund deficit balance was due to costs being higher during the year than originally planned. This is a multi-year project so an adjustment will be made for the next year's budget.

Conclusion - Response accepted.